VIRGINIA DEPARTMENT OF SOCIAL SERVICES
ASSISTED LIVING FACILITY (ALF)
INSTRUCTIONS FOR COMPLETING THE ALF COST REPORT
(ALF-00I INSTRUCTIONS FOR COMPLETING COST REPORT FORM ALF-00C)

1 - Cost Report Period

Enter the starting and ending dates applicable to the Cost Report. A Virginia Department of Social Services (VDSS) ALF license (regardless of the type) must have been in effect for the entire period indicated. **For example**, if the licensed ALF operated for the full calendar year in 2001, then indicate 1/1/01 to 12/31/01. If a new ALF was licensed with an effective date of 2/1/01 then the dates would be 2/1/01 to 12/31/01.

Normally the 12 month period reported on the cost report is the calendar year January through December. ALFs desiring to submit cost reports for an entire licensed period other than the calendar year must obtain prior approval from VDSS, Division of Finance. Verbal approvals for exceptions should be noted on the cost report with the name of approver and date. ALFs desiring to rely on a recent Cost Report on file at VDSS should verify its validity and if it is up-to-date by contacting VDSS, Division of Finance. DO NOT ASSUME all Cost Reports submitted previously are valid for the new period.

2 - Facility Information

Enter the name and address of the facility as it is indicated on the VDSS license.

3 – Net Operating Revenue

Net operating revenue represents the amount of charges assessed residents directly related to the provision of care less any nonapplicable amounts. Generally, these charges are for room and meals. In some facilities, these may also encompass charges for other types of services such as laundry, transportation, etc. This Section 3 requires that operating revenue derived from resident care be separated into four categories.

Line 3A, record the amount of revenue received from Private Pay Residents.

Line 3B, record the total amount of revenue received from Auxiliary Grant (AG) recipients, including SSI with the state AG supplement.

Line 3C, record the total amount of revenue paid by the Department of Medical Assistance Services (DMAS) for Assisted and Intensive living recipients. These amounts are paid in addition to the AG payments.

Line 3D, record all other net operating revenue for ancillary services and products provided where charges were assessed. Examples of these are personal care services and over the counter medication. Also, include all local subsidies and funding used to offset operating expenses. Any resident refunds or other adjustments should be included.

Line 3E, total lines 3A through 3D and enter the total here.

4 - Certification

The owner/administrator must certify the Cost Report statement by signing this section. Original signatures are required on reports submitted to VDSS. Phone numbers are requested should questions arise during the review of the Cost Report by VDSS.

5 – Net Operating Expenses

Net operating expenses are costs directly related to the care of residents.
Non-operating expenses are activities that are not directly related to the care of residents and must be subtracted from applicable operating expenses when they exceed the non-operating revenue. Stated another way, operating costs must be reduced by any non-operating revenue, less non-operating expenses. Any miscellaneous reductions required can be included in line 5F, "All other net operating expenses".

If non-operating expenses exceed nonoperating revenue, no adjustment is necessary. Non-operating activities range from gift shop operations to income earned on investments. Some other nonoperating revenue examples are; (when they are not for the resident) charges to visitors and employees for rooms, meals and laundry. Donations, grants and revenue from fund raising are considered operating revenue if it is used to benefit all residents.

Generally, expense classifications provided on the form are self-explantory. Selected classifications of expenses are further described below.

> Line 5A, Salaries, Wages and Benefits should be amounts paid to all owners and employees. Fringe benefits are defined as payments made by the employer on behalf of the employee and are not a component of the employee's salary or hourly wage. Wage/salary allowances for donated or non-compensated time is permissible as long as it benefited all residents, is reasonable compared to equivalent pay standards and can be substantiated.
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> Line 5D, Facility: Rent/Lease /Interest/Depreciation is intended to capture those expenses related to the ALF and supporting facility. Rents, leases or interest are expenses associated with rent payments for the actual facility or the interest portion only of any mortgage if buying the property. Also, include the interest only expense associated with any installment, time or demand note.
> Refer to Attachment A, "Instructions for Depreciation Expense" for instructions on determining and calculating depreciation and use allowances.
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> Line 5E, enter appropriate maintenance and repair expenses for the ALF facility. Expense allowances for donated services is permissible as long as it benefited all residents, is reasonable compared to equivalent pay standards, can be substantiated and has not been included elsewhere in the cost report.
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> Line 5F, this line should be used for any other operating expenses not listed above less any applicable adjustments.
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> Line 5G, total lines 5A through 5F and enter the total here.

6 – Patient/Bed Days
This section provides statistical information on the availability and actual usage of licensed beds. This result is used to determine the cost per resident in the next section.

Line 6A is to determine the total bed capacity. First, determine how many licensed beds there were during the cost report period. If it changed during the period, use an average number. Next, multiply the number of days in the reporting period by the total number (or average) of licensed beds and record your answer.

Line 6B is to show the result of multiplying the answer from Line 6A above by 85% (or .85). The percentage of 85% represents the average occupancy for all ALF's and is used as a minimum threshold when determining resident cost.

Line 6C is to record the actual patient/beds occupied/filled during the report period expressed in bed days. There are various methods to determine this number. One simple example is the number of beds actually occupied/filled (or an average) multiplied by the number of days in the report period.

Line 6D is to determine the final number used for the cost calculation in the next section. Enter the greatest number from either line 6B or 6C.

7 – Rate Calculation
This section is used to determine the cost for all applicable residents per month. This result is compared to the maximum monthly Auxiliary Grant (AG) rate approved by the State of Virginia to ensure that an ALF's cost of care exceeds the maximum AG rate. If an ALF's cost is lower, the lesser amount would be the maximum AG payment for residents in that facility.

Line 7A, enter the results indicated on line 5G here.

Line 7B, is to add an allowable 10% growth factor for profit ALF's only. Non-profit ALF's would enter 0 and skip this line.

Line 7C, is to add an inflation adjustment (for all ALF's) to the previous years costs so the cost will equate to the current maximum AG rate. This is done by multiplying the inflation percentage 3.0% (or 1.030) by the total amount of lines 7A plus 7B.

Line 7D, enter the results from 6D here.

Line 7E, determines the cost of care for residents on a daily basis by dividing total adjusted expenses on line 7C by the appropriate bed days on line 7D. Enter results here.

Line 7F, determines the cost of care for residents on a monthly basis by multiplying line 7E by the average days per month, 30.417. Enter results here.

ATTACHMENT A
DEPRECIATION EXPENSE INSTRUCTIONS
Found under Net Operating Expenses, Line 5D

The following instructions apply to expenses for depreciation and amortization of fixed assets. Depreciation is a method of allocating the costs of long-lived assets over the useful life of the asset to the reporting periods benefited. Detailed information concerning individual assets is not required however; the facility is required to maintain detailed information regarding the calculation of depreciation expense. Detailed information includes a listing of all depreciable assets; their acquisition costs, estimated salvage value, useful life, and expense calculation. Depreciation expense and use allowances for the cost reporting period are then summarized for inclusion in total operating costs.

Criteria for Capital Assets

Depreciation expense is recognized only for assets that are considered capital assets. The Department has established the following criteria for the determination as to whether an asset is a capital asset:

1. The asset is separate and tangible.
2. The asset has a useful life of 2 or more years.
3. The asset has a total acquisition cost of $5,000 or more.

An asset must meet all three above criteria to be considered a capital asset and be used in the calculation of depreciation expense. The cost of any individual asset (furniture, fixtures, equipment or vehicles) that dose not meet all three criteria should be reported as an operating expense in the year of acquisition.

Factors Affecting Depreciation Expense

There are three primary factors affecting the periodic Depreciation charge: (1) asset cost, (2) residual or salvage value and (3) useful life.

Asset cost includes all expenditures relating to its acquisition. The cost of an asset less the expected residual value is the depreciated cost or depreciable base. The depreciable base is the cost for which depreciation expense is calculated.

Residual or salvage value is an estimate of the amount to be realized upon retirement of the asset.

Capital assets, other than land, have a useful life or an estimate as to how long the asset will be of use to revenue. The following guidelines are for the establishment of useful lives for individual assets:

Buildings	20-40 years
Vehicles	3-8 years
Furniture, fixtures, and equipment	5-15 years

Calculation of Annual Depreciation Expense

Buildings

Determine the acquisition cost of all buildings. The acquisition cost includes all amounts paid related to the purchase of the building but should exclude interest expenses paid that are associated with the long-term purchase or lease acquisition of the building. Interest expenses should be included and reported with lease expenses or mortgage interest. The value of land is excluded from the purchase price, as the usefulness of land does not depreciate with the passage of time. If the value of land acquired with a building is not separately identified in purchase documents, the estimated value can be determined based on information available to the facility for the value of similar parcels of land in the area or county assessments. If the building has been constructed on land separately purchased, no land value should be deducted from building costs. To calculate the depreciable cost, subtract the estimated salvage value and land value (if applicable) from the acquisition cost. And then divide the results by the useful life.

$$\text{Depreciation} = \frac{\text{Acquisition Cost} - \text{Salvage Value}}{\text{Useful Life}}$$

The result would represent depreciation cost for one year.

Example: A facility operates using two buildings. Building number 1 was constructed three years ago for $60,000 on previously owned land and has a useful life of 20 years. It's estimated salvage value is $10,000. Building number 2 was purchased for $55,000 together with a parcel of land estimated to be valued at $10,000. The estimated salvage value for building 2 is $8,500 with a useful life of 20 years.

Depreciation expense is calculated as follows:

	Building No. 1	Building No. 2
Acquisition cost	$60,000	$55,000
Less: Salvage Value	(10,000)	(8,500)
Land Value	0	(10,000)
Depreciable Cost	$50,000	$36,500
Divide by Useful life	20	20
Annual Depreciation Expense	2,500	1,825
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Furniture and Equipment

Determine the acquisition cost of all assets. When the facility owns more than one like asset that was acquired in one bulk purchase, the facility can group like assets and list them together. The acquisition cost excludes interest expenses paid that are associated with the long-term purchase or lease acquisition of the asset. Interest charges should be listed and reported with other operating expenses as interest on an installment loan.

Estimate the salvage value for individual assets. Salvage value represents the facility's best estimate of the asset's value at the end of its useful life.

Determine the asset depreciable cost by subtracting the estimated residual value from acquisition cost. Calculate depreciation expense by dividing depreciable cost by the estimated useful life.

Vehicles

Determine the acquisition cost of all vehicles. The acquisition cost excludes interest expenses paid that are associated with the long-term purchase or lease acquisition of the asset. Interest expenses should be listed and reported with other operating expenses as interest on an installment loan.

Estimate the salvage value of individual assets. Salvage value represents the facility's best estimate of the asset's value at the end of its useful life.

Determine the assets depreciable cost is subtracting the estimated residual value from the acquisition cost. Calculate depreciation expense by dividing depreciable cost by the estimated useful life.

Use Allowance

Use allowance applies to capital assets, which are fully depreciated and have extended their usefulness beyond their estimated useful life. Assets for which depreciation has been calculated above should not be included in this section.

The authorized annual use allowance rate is 2%. Determine the assets that have extended beyond their estimated useful life. Calculate the use allowance by multiplying the original cost of these assets by the allowance rate (2%).

Land Improvement

Land improvements apply to expenditures for improving land that will require ultimate replacement. Examples of land improvements are paving, fencing, water and sewage systems and landscaping.

To determine the assets depreciable cost, divide the depreciable cost by the estimated useful life.